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WESTERN MONTANA COLLEGE

REPORT ON AUDIT

Conducted Under Contract By
Janke and VanDelinder
Certified Public Accountants

Fiscal Year Ended June 30, 1978

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
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WESTERN MONTANA COLLEGE

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

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ADMINISTRATION AND PROGRAM AUDITS
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FINANCIAL-COMPLIANCE AND CONTRACTED AUDITS
STAFF LEGAL COUNSEL
JOHN W. NORTHEY

October 1978

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of Western Montana College for the year ended June 30, 1978.

The audit was conducted by Janke and Van Delinder, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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Western Montana College Revenue Bonds

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Honorable Thomas L. Judge, Governor*	
Honorable Georgia Rice, Superintendent of Public Instruction*	
Dr. Lawrence K. Pettit, Commissioner of Higher Education*	
Laura W. Briney	1979
Ted James	1979
Jeffrey B. Morrison	1980
John L. Peterson	1982
Lewy Evans, Jr.	1983
Lola Hansen	1984
Mary Pace	1985

* ex officio members

WESTERN MONTANA COLLEGE

LOCAL EXECUTIVE BOARD

Frank M. Davis	1981
Bruce Watters	1979
Carl M. Davis	1980

ADMINISTRATION

Dr. James E. Short (retired June 30, 1976)	President
Dr. George Bandy	Interim President
Michael Billings	Business Manager

SUMMARY OF RECOMMENDATIONS

As a separate section in front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of Western Montana College is included as a separate section directly following the financial statements.

	Page
Consult with the Commissioner of Higher Education and the Board of Regents to establish alternatives to the methods of meeting the issue's debt service requirements.	3
Agency Reply: Disagree. The College believes it has implemented several changes which will provide sufficient income to maintain the debt service requirements. See page 34.	
Seek the assistance of the Board of Regents and the Commissioner of Higher Education in directing the Trustee to transfer the necessary funds.	4
Agency Reply: Concur. See page 35.	
Future transfers to the Sinking Fund Account be made on a timely basis.	4
Agency Reply: Concur. See page 35.	
Arrangements should be made to have the Trustee assume responsibility for the payment of bond principal and interest without going through the State Treasurer.	5
Agency Reply: The College is meeting with the Commissioner's Office and the Department of Administration. See page 36.	
The liability for outstanding bonds should be recorded in the College's general ledger.	5
Agency Reply: Concur. See page 37.	
Recognize all account balances and related transactions with the Trustee in its general ledger.	5
Agency Reply: Concur. See page 37.	
Transfer the funds to a State Treasury account or obtain the approval of the Department of Administration to maintain a separate commercial bank account.	5

Agency Reply: Concur. See page 37.

Consider establishing a loan fund for receivables and related transactions arising from deferral of fees and other student charges. 6

Agency Reply: Disagree. See following recommendation and page 38.

The Board of Regents should consider appropriating the necessary amount of funds which would enable the College to properly operate the loan fund. 6

Agency Reply: Disagree. The Board of Regents does not have the authority to appropriate the necessary funds. See page 38.

Reconciliations of receivables should be performed monthly. 7

Agency Reply: Concur. See page 38.

Promptly resolve differences between the detail and general ledger control accounts. 7

Agency Reply: Concur. See page 38.

Review on a monthly basis students on a deferred fee payment plan to insure that the fees are collected in accordance with Board of Regents' policy. 7

Agency Reply: Concur. See page 38.

Establish an allowance for uncollectible accounts. 7

Agency Reply: Concur. See page 38.

If the College exhausts its collection avenues, the accounts should be given to the Department of Revenue for collection. 7

Agency Reply: Concur. See page 38.

Whenever it appears an account cannot be collected, the College should request approval from the Department of Revenue to write it off. 7

Agency Reply: Concur. See page 38.

Conduct a physical inventory of all property as soon as possible. 8

Agency Reply: Concur. See page 38.

Accounting records should be adjusted to reflect the physical count. Unrecorded property should be recorded and property no longer in existence or owned by the College should be deleted from the records. 8

Agency Reply: Concur. See page 38.

Page

While taking the inventory, all equipment should be provided with an identification number. 8

Agency Reply: Concur. See page 38.

Procedures should be established in the Business Office to insure that proper accounting is made for all final reports received from the Architecture and Engineering Bureau involving construction projects. 8

Agency Reply: Concur. See page 39.

The textbook rental library should be recognized in the College's accounting records. Annual physical inventories should be taken including the extension of the inventory's dollar value. 8

Agency Reply: The textbook library is being merged into the campus bookstore. See page 39.

The Board of Regents should comply with bond indenture requirements regarding non-resident building fees. 9

Agency Reply: Concur. See page 43.

Adjust allocation of student fees to the athletic fund to comply with Board of Regents' policy. 9

Agency Reply: Concur. See page 39.

The contingent revolving account should be reconciled monthly and any differences should be promptly resolved. 9

Agency Reply: Concur. See page 39.

The detailed records of the Scholarship Fund and the general ledger control account should be reconciled monthly and differences promptly resolved. 10

Agency Reply: Concur. See page 40.

The Jim Spehar Memorial Scholarship account should be reclassified as a restricted fund. 10

Agency Reply: Disagree. For ease of accounting we have elected to include the $677 belonging to the College in an agency account. See page 40.

Consult with the Board of Regents to determine alternatives which would eliminate the loans to the Athletic Department. 10

Agency Reply: Concur. See page 40.

Page

Investments should not be made in accounts which have outstanding loans. 10

Agency Reply: Concur. See page 40.

The student store inventory and accounts receivable should be recognized in the College's accounting records. 10

Agency Reply: Concur. See page 40.

Tellers' daily close-out sheets should be periodically reviewed by a responsible official. 11

Agency Reply: Concur. See page 41.

The supply of unused checks should be kept at a location which is accessible to only those persons authorized to prepare them for signature. 11

Agency Reply: Concur. See page 41.

The change fund should be periodically counted and reconciled by someone other than the cashier. 11

Agency Reply: Concur. See page 41.

Duties and responsibilities of payroll personnel should be rearranged so that payroll warrants and Form W-2's are received and distributed by someone other than the persons responsible for payroll preparation. 11

Agency Reply: Concur. See page 41.

After all avenues of collection have been exhausted, the delinquent loans should be written off. 12

Agency Reply: Concur. See page 41.

Record the deposit in its accounting records in order that accountability for this asset can be maintained. 12

Agency Reply: Concur. See page 41.

Contact the United Student Aid Funds, Inc. to determine the current status of the loans and its refundable deposit. 12

Agency Reply: Concur. See page 41.

File and retain copies of the required Frontier Conference reports. 13

Agency Reply: Concur. See page 41.

Page

Establish a written receiving report. 13

Agency Reply: The College has used a receiving report for some time. See page 42.

Periodically reconcile subsidiary detail records with the general ledger and resolve all differences promptly. 13

Agency Reply: Concur. See page 42.

Reclassify these deposits to unrestricted funds. 13

Agency Reply: Concur. See page 42.

Require receipts for all athletic related travel. 13

Agency Reply: Concur. See page 42.

JANKE AND VAN DELINDER CERTIFIED PUBLIC ACCOUNTANTS

JAMES N. JANKE, CPA
DALLAS W. VAN DELINDER, CPA
DARRELL E. EHRLICK, CPA

Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Western Montana College as of June 30, 1978, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Except as explained in the third and fourth paragraphs, our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Beginning July 1, 1977, the College reclassified the student store operations from an agency fund to an auxiliary enterprise and recognized the store's inventory. The effects of these changes are described in Note 2 to the financial statements.

We did not observe the taking of student store physical inventories at June 30, 1977 and 1978 and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures.

Our tests of the investment in plant fund were limited to a review of activity for the five years ended June 30, 1978 and did not include a review of accumulated balances prior to July 1, 1973. Our tests revealed property disposed of is not deleted from accounting records; a physical inventory of properties has not been taken within the last seventeen (17) years; and books purchased for the textbook rental library are not capitalized. The amounts by which the financial statements would change if fixed assets were properly accounted for cannot practicably be determined. Because of the matters described in this paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet and statement of changes in fund balances of the Plant Funds.

Textbook rental deposits and room deposits are included in the agency portion of the balance sheet. In our opinion, the asset and corresponding liability arising from the deposits should be shown on the balance sheet under the category of current unrestricted funds. At June 30, 1978, the deposits totalled $10,031.

720 NORTH 30TH STREET □ BILLINGS, MONTANA 59101 □ AC 406-245-5136

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Except for the matters described in the third and fifth paragraphs the aforementioned financial statements, excluding Plant Funds, present fairly the financial position of Western Montana College at June 30, 1978 and the changes in fund balances and the current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the reclassification of the student store and recognition of the store's inventory as described in Note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

August 25, 1978

Touche & Vandelinder

C O M M E N T S

General

Western Montana College was established at Dillon by the Third Legislative Assembly in 1893. It was initially called the State Normal School at Dillon, and in 1965 the name was changed through legislation to Western Montana College. The College has been primarily oriented since its inception toward the training and education of elementary and secondary teaching personnel. Initially, the College offered a basic two-year program in education. In 1931, the State Board of Education approved a four-year course and a Bachelor of Education degree. Since that time, additional degrees have been authorized, including Bachelor of Science in Secondary Education, Master of Science in Education, Bachelor of Arts in History and English, Bachelor of Arts and Science in Natural Heritage, and Associate of Arts and Science degrees.

The College is under the full control and supervision of the seven-member Board of Regents of Higher Education. A local three-member executive board is appointed by the Governor; however, this board is only advisory in nature.

The original campus is located on ten acres of land which were deeded to the College by Philip H. Poindexter and William C. and Rachel Orr in December, 1894. The ground was deeded "in Trust for the use and benefit of the State Normal School of the State of Montana." Most of the College's buildings are located on the original ten acres, but the College has since purchased property which increased the total property ownership to 34 acres.

The primary sources of revenue to operate the College come from the State's General Fund and University Millage accounts. Revenue is student fees, land grant income, and auxiliary enterprise operations. The nature and extent of the revenue from these various sources are depicted in the exhibits which are presented in the style and format unique to higher education.

Bond Issues

Financial Status - 1966 Bond Issue

As noted in the prior audit reports, the 1966 bond issue remains in financial jeopardy. Pledged revenues have not been sufficient to meet the requirements of the bond indenture and if the past and present trends continue, substantial amounts of outside funds will have to be committed to meet future principal and interest payments. Net earnings for the year ended June 30, 1978 were $34,874. Required principal and interest payments during this period were $84,409.

Recommendation

The College should consult with the Commissioner of Higher Education and the Board of Regents to establish alternatives to the methods of

meeting the issue's debt requirements.

Reserve Requirements - 1966 Bond Issue

In connection with the foregoing comment, the College is required to maintain with the Trustee, sinking fund accounts for each Series A through D and a System Repairs Reserve. The College's 1966 revenue bond operating account at June 30, 1978 had a balance of $179,663 and the System Repairs Reserve had a balance of $22,551. The four sinking fund accounts did not have the required balances at June 30, 1978 nor were transfers into these accounts made on a timely basis. The accounts and applicable balances are as follows:

	June 30, 1978		
	Actual Reserves	Required Reserves	Deficiency
Series A	$ 28,875	$ 41,375	$ 12,500
Series B	12,458	17,458	5,000
Series C	14,156	16,656	2,500
Series D	24,816	29,824	5,008
	80,305	105,313	25,008

At June 30, 1977, the above sinking fund accounts were deficient in meeting required reserves by approximately $153,000. These deficiencies were partially corrected during the year ended June 30, 1978 by transfers from (1) the operating account; (2) the System Repairs Reserve; and (3) excess funds of the 1967 bond indenture.

The bond indenture requires neither the operating account or the System Repairs Reserve to have a definite balance. But it does require deposits to be made from the operating account to the sinking fund accounts at specified times throughout the year. Only after the required deposits to the four sinking fund accounts have been made, should deposits be made to the System Repairs Reserve. Furthermore, Section 5.06 of the indenture states in part: "...in the event the funds in the Sinking Fund Account should be insufficient to meet principal and/or interest on bonds payable therefrom or should be reduced below the debt service reserves after said reserves have once been accumulated, funds on deposit in the System Repairs Reserve shall be transferred to the Sinking Fund Account to the extent required to eliminate the deficiency in that Account..." The College has continually directed the Trustee to make the required transfers on a timely basis.

Recommendation

We recommend the following:

(1) The College should seek the assistance of the Board of Regents and the Commissioner of Higher Education in directing the Trustee to transfer the necessary funds from the operating account and the System Repairs Reserve to meet the required balances in the Sinking Fund Accounts.

(2) Future transfers to the Sinking Fund Account should be made on

a timely basis; i.e., on or before each March 15 and September 15. The transfers should be in amounts equal to the interest to become due on the next interest payment date plus one-half of principal due within the succeeding twelve months and to maintain the required debt service reserve.

Retirement of Bonds - 1966 and 1967 Issues

The College periodically deposits with the Trustee (First National Bank and Trust Company of Helena, MT), amounts which are to retire bond principal and interest as they become due. Approximately 15 days prior to the due date, the Trustee remits to the Montana State Treasurer the amount of interest and/or principal which is to be paid. The State Treasurer makes the required payments. In our opinion, this creates an unnecessary duplication of effort and diminishes the control over the paid bonds and coupons.

Recommendation

Arrangements should be made to have the Trustee assume responsibility for the payment of bond principal and interest without going through the State Treasurer.

General Ledger - 1966 and 1967 Bond Indenture

The general ledger of the College is incomplete. The liability for bonds outstanding has not been recorded. Also not recorded are the account balances and related transactions with the Trustee.

Recommendation

We recommend the following:

(1) The liability for outstanding bonds should be recorded in the College's general ledger.

(2) The College should recognize all account balances and related transactions with the Trustee in its general ledger.

1967 Bond Indenture - Revenue Bond

During the year ended June 30, 1978, the College established an account with the Trustee by transferring $174,741 from the Revenue Bond Fund (sinking fund). This account is reported in the Revenue Fund of the 1967 Bond Indenture. As noted in the preceding comment, the account is not recorded in the College's general ledger.

Recommendation

The College should transfer the funds to a State Treasury account or

obtain the approval of the Department of Administration to maintain a separate commercial bank account.

Student Accounts Receivable

In 1973, the Board of Regents continued the policy (Board item 3-004-R1273) permitting deferred payments of student fees and room and board charges. The policy requires that deferred fees be paid within 60 days of the date of enrollment. By the end of any given quarter, deferred fees and other charges should be paid. Many students do not make the required payments on a timely basis and at June 30, 1978, student accounts receivable totalled $22,361. (See our comments regarding delinquent accounts.)

Presently, proper general ledger recognition of the receivables and subsequent transactions would require unduly complex accounting procedures. Student balances could affect many funds and the balances, payments and other adjustments should be allocated by fund. The accounting is further complicated with the recognition of an allowance for doubtful accounts. The College has attempted to recognize the receivables by recording a substantial portion of the receivables in an agency account. The revenues arising from the year-end receivables were recognized in the appropriate funds by recording the transactions as if cash had already been received. Accordingly, at June 30, 1978 cash in several of the College's accounting entities was overstated.

At June 30, 1978, the receivable detail did not agree with the general ledger by approximately $7,000. The allocation of receivables by fund would increase the difficulty of reconciling the detail with the general ledger. Instead of searching for possible mistakes to only one control account, there could be several control accounts with incorrect postings.

The deferral of fees and charges has, in effect, created a loan to the student. If the receivables were recognized as a loan and a loan fund was established, the accounting for them would be greatly reduced. The College would also increase its control over the total amount owed by each student. The revenues arising from these deferrals should be recognized at time of registration. If the loan fund was initially provided with a certain amount of capital monies, the revenue could be recognized in the proper fund by transferring the required amount from the loan fund. As the student makes repayments, the monies would be retained by the loan fund to make additional loans in future quarters.

Recommendation

We recommend the following:

(1) The College should consider establishing a loan fund for receivables and related transactions arising from deferral of fees and other student charges.

(2) The Board of Regents should consider appropriating the necessary amount of funds which would enable the College to properly operate the loan fund.

(3) Reconciliations of receivables should be performed monthly.

(4) The College should promptly resolve differences between the detail and general ledger control accounts.

Delinquent Accounts

Our analysis of student accounts receivable at June 30, 1978 indicated that collectibility of a substantial portion of these accounts is doubtful. In many instances the College does not pursue delinquencies on a timely basis or upon follow-up it is often found that the student is unable to make payment. These findings and the following recommendations are similar to those mentioned in the June 30, 1976 audit report.

Recommendation

We recommend the following:

(1) The College should review on a monthly basis students on a deferred fee payment plan to insure that the fees are collected in accordance with Board of Regents' policy.

(2) The College should establish an allowance for uncollectible accounts.

(3) If the College exhausts its collection avenues, the accounts should be given to the Department of Revenue for collection.

(4) Whenever it appears an account cannot be collected, the College should request approval from the Department of Revenue to write it off.

Plant, Property and Equipment

As discussed in our opinion to the financial statements on pages 1 and 2 of this report, the College does not properly account for its investment in plant. Property purchased is often not added to the records and property disposed of is not deleted.

Inadequacies observed in the College's property control procedures are of such magnitude that no assurance exists that state-owned property is in the custody of the College and that amounts reported in financial statements are reliable.

A complete record of property is not maintained. Individual property items are not identified. A physical inventory has not been taken since July 1960. We were advised that the College now has an employee charged with the responsibility of taking an inventory of plant, property and equipment. We commend the College for this action.

Primary accounting, during the construction period for all projects costing more than $3,000, is done by the Architecture and Engineering Bureau of the Department of Administration. During construction the College receives from the Bureau periodic reports listing in detail expenditures by category. At the completion of the project the College receives a final report recapping all expenditures for the project. As noted in the prior audit report, the College failed to record a building construction project valued at $890,748. Recording of construction projects since June 30, 1973 were included in our audit adjustments for the year ended June 30, 1978.

The College purchases textbooks and rents them to students who must pay a textbook rental fee and damage deposit. Students do have the option to purchase the books. Our observation of the library indicates a significant textbook inventory. However, these books are not recorded on the College's accounting records. We were advised that an annual physical inventory of these books is taken but that a dollar value is not computed.

Recommendation

We recommend the following:

(1) The College should conduct a physical inventory of all property as soon as possible. If there are more expensive pieces of equipment which cannot be located, an investigation should be made to determine the manner in which they were disposed.

(2) Accounting records should be adjusted to reflect the physical count. Unrecorded property should be recorded and property no longer in existence or owned by the College should be deleted from the records.

(3) While taking the inventory, all equipment should be provided with an identification number. The number should be noted on the property listing along with its location.

(4) Procedures should be established in the Business Office to insure that proper accounting is made for all final reports received from the Architecture and Engineering Bureau involving construction projects.

(5) The textbook rental library should be recognized in the College's accounting records. Annual physical inventories should be taken including the extension of the inventory's dollar value.

Non-resident Building Fees

As noted in the June 30, 1976 audit report, the Indenture for the Housing and Dining System Bonds of 1966 requires a charge of $22.50 per quarter for all non-resident students attending Autumn, Winter, or Spring quarters. This additional charge is identified as a non-resident building fee.

In accordance with Board of Regents' policy, the College assesses this fee at

the rate of $2.00 per credit from one through twelve credits. Consequently, those non-resident students taking less than twelve credits do not pay the required non-resident building fee.

Recommendation

The Board of Regents should comply with bond indenture requirements regarding non-resident building fees.

Student Activity Fee

The Board of Regents, at its May 25, 1977 meeting, approved the allocation of $8 of the student activity fee to the intercollegiate athletic fund for the year ending June 30, 1978. Only $7 was allocated to the fund.

Recommendation

The College should adjust this allocation to the athletic fund to comply with Board of Regents' policy.

Contingent Revolving Account

The College maintains a $4,500 contingent revolving account in a commercial bank. This account is used for travel advances, student short-term loans and miscellaneous expenditures. It is reimbursed monthly from the funds to which these expenditures are charged. During the current year, the College did not reconcile the bank balance to the book balance. At June 30, 1978 the unreconciled difference was $202.71. This condition is a weakness in internal control.

Recommendation

This account should be reconciled monthly and any differences should be promptly resolved.

Scholarships and Fee Waivers

The College maintains detail ledger accounts for scholarships. At June 30, 1978, the total of the detail did not agree to the general ledger.

During the current year, the corpus of the Jim Spehar Memorial Scholarship account was transferred from restricted funds to an agency account. This account consists of gifts to Western Montana College from various individuals as a memorial to Jim Spehar. Generally accepted accounting principles require this type of gift to be accounted for in restricted funds.

Recommendation

We recommend the following:

(1) The detailed records of the Scholarship Fund and the general ledger control account should be reconciled monthly and differences promptly resolved.

(2) The Jim Spehar Memorial Scholarship account should be reclassified as a restricted fund.

Inter-entity Loan

At June 30, 1978, an auxiliary fund account, Athletic Department, had loans payable totalling $88,293 from two other auxiliary fund accounts. These loans, which were obtained in December 1976, were the result of deficits that had accumulated over several years. From discussions with College officials, the loans have no repayment terms. Presently, a significant portion of the Athletic Department's operations is funded by the State general fund. If this continues, it would be difficult for these loans to be repaid. The Athletic Department has investments of $8,059 with the State Board of Investments at June 30, 1978.

Recommendation

We recommend the following:

(1) The College should consult with the Board of Regents to determine alternatives which would eliminate the loans to the Athletic Department.

(2) Investments should not be made in accounts which have outstanding loans.

Student Store

The student store takes an annual inventory at June 30. This inventory and accounts receivable arising from charge sales are not recognized in the College's accounting records.

Recommendation

The inventory and accounts receivable should be recognized in the College's accounting records.

Internal Control - Cash

The following internal control weaknesses were noted:

(1) Tellers' daily close out sheets are not reviewed by a responsible official.

(2) Unused blank checks are kept in an unlocked box in the vault to which limited access is not maintained.

(3) The College maintains a change fund of $6,000 under the control of the cashier. Under current procedures, this fund is not periodically counted and reconciled by someone other than the cashier.

Recommendation

We recommend the following:

(1) Tellers' daily close out sheets should be periodically reviewed by a responsible official. An unannounced review would be most desirable.

(2) The supply of unused checks should be kept at a location which is accessible to only those persons authorized to prepare them for signature.

(3) The change fund should be periodically counted and reconciled by someone other than the cashier, preferably on an unannounced basis.

Payroll

Our review of payroll revealed that a few employees perform the majority of the payroll functions. This situation, which weakens internal control, has the payroll department receiving and distributing payroll warrants, checks and annual wage and tax withholding statements (Form W-2). Any unclaimed warrants or W-2's are returned to the payroll department.

Recommendation

Duties and responsibilities of payroll personnel should be rearranged so that payroll warrants and Form W-2's are received and distributed by someone other than the persons responsible for payroll preparation. In addition, unclaimed warrants and W-2's should be handled and investigated by someone outside the payroll department.

Short-term Loan Fund

The prior audit report made several recommendations concerning administration of the short-term loan fund. Corrective action has been taken to comply with many of these recommendations. We commend the College for this action. However, the following weakness still exists.

The College catalog states that loan repayments are usually to be made during the quarter the money is borrowed. This would mean that at June 30, 1978, the loan balance should be nil. However, there was a balance of $6,465. Included in this total were the accounts of eighteen students with loan balances

totalling $3,278 which had balances existing at June 30, 1977. Collection of delinquent accounts has been actively pursued by the College's Financial Aid Office and in some instances have been turned over to the Department of Revenue for further follow-up.

Recommendation

After all avenues of collection have been exhaused, the delinquent loans should be written off.

United Student Aid Loan Deposit

The College has $4,112 deposited with United Student Aid Funds, Inc. This is a private corporation engaged in a student loan program. Western did participate in this program, but has not done so for several years. This deposit is a reserve for bad debts on student loans. The deposit is not recorded on the College's accounting records or recognized in the financial statements.

The deposit is refundable to the College after all loans have been repaid and the College has officially withdrawn from the program. If all loans have not been repaid when the College withdraws, a rather complex formula is used to determine the refundable amount. At June 30, 1978, the College did not know the current status of these loans.

Recommendation

We recommend the following:

(1) The College should record the deposit in its accounting records in order that accountability for this asset can be maintained.

(2) The College should contact the United Student Aid Funds, Inc. to determine the current status of the loans and its refundable deposit.

Athletic Scholarship Report

Section 8 of the by-laws of the Frontier Athletic Conference states:

"At the end of the academic year and not later than July 1, each member institution shall prepare a financial aid report listing the names of all student-athletes receiving financial aid from the institution. The report shall show the total aid per student, the total aid per sport and the total aid awarded by the institution to athletes during the academic year. The report shall be authenticated by the President of the institution and forwarded to the Frontier Conference Office."

College officials have not prepared a report which would satisfy the requirements of Section 8.

Recommendation

The College should file and retain copies of the required Frontier Conference reports.

Miscellaneous

Receiving Reports

Currently, the College has no formal receiving report, nor are support documents cancelled by the person signing claims. Although we observed no instance where bills were paid twice, since a formal report is lacking, the possibility exists where a bill could be paid twice.

Recommendation

The College should establish a written receiving report. Bills should not be paid unless accompanied by the receiving report and all supporting documents should be cancelled by the person signing the claims.

Deposits

The College maintains separate agency accounts for students' room and general deposits. Detailed subsidiary records are maintained, but we were unable to reconcile the totals to the College's general ledger control accounts.

Recommendation

We recommend the following:

(1) The College should periodically reconcile subsidiary detail records with the general ledger and resolve all differences promptly.

(2) The College should reclassify these deposits to unrestricted funds.

Travel - Athletic Department

Our testing of athletic travel expenditures indicated that in some cases the athletic department does not submit receipts to support expenditures for travel.

Recommendation

The College should require receipts for all athletic related travel.

Prior Audit Findings

We have reviewed the audit findings and recommendations contained in the audit report for the year ended June 30, 1976. Except for the following comments, the College appears to have complied with all recommendations or circumstances have changed to make the recommendation inapplicable.

Cash Accounts and Related Items - Miscellaneous

Recommendation: We recommend the following: (1) Tellers' daily close sheets be periodically reviewed by a responsible official. A surprise review would be most desirable. (2) The supply of unused checks should be kept at a location which is accessible to only those persons authorized to prepare them for signature.

Finding: These continue to be problems. See comment at page 10.

Deferred Fee Collections - Accounts Receivable

Recommendation: The receivables arising from the deferral of student fees should be incorporated into the College's accounting system and the income should be recognized at the time the student elects to defer the charge.

Finding: The College has incorporated such receivables into its accounting system, but there continues to be problems with the manner in which this was implemented. See comment at page 6.

Delinquent Accounts

Recommendation: We recommend the following:

(1) The College should review on a timely basis students on a deferred fee payment plan to insure that the fees are collected in accordance with Board of Regents' policy.

(2) The College should periodically age the accounts receivable and review the aging schedule for delinquent accounts. The delinquent accounts should be investigated and collection pursued.

(3) The College should establish an allowance for uncollectible accounts.

(4) If the College exhausts its collection avenues, the accounts should be given to the Department of Revenue for collection.

(5) When it appears the account will not be collected, it should be written off, but only after Department of Revenue approval.

Finding: These continue to be problems. See comment at page 7.

Non-resident Building Fees

Recommendation: The College should comply with the provisions of the Indentures and assess the full non-resident building fee of $22.50 per quarter to all non-resident students attending Autumn, Winter, and Spring quarters without regard to the number of credits being taken by the student.

Finding: This continues to be a problem. See comment at page 8.

Student Store

Recommendation: Inventory and receivables should be recognized in the College's accounting records.

Finding: Inventories and receivables are still not recognized. See comment at page 10.

Plant, Property and Equipment

Recommendation: We recommend the following: (1) The College should conduct a physical inventory of all property as soon as possible. For the more expensive pieces of equipment which cannot be located, an investigation should be made to determine the manner in which they were disposed. (2) Accounting records should be adjusted to reflect the physical count. Unrecorded property should be recorded and property no longer in existence or owned by the College should be deleted from the records. (3) While taking the inventory, all equipment should be provided with an identification number. The number should be noted on the property listing along with its location. (4) Procedures should be established in the business office to insure that proper accounting is made for all final reports received from the Architecture and Engineering Bureau involving construction projects. (5) The textbook rental library should be recognized in the College's accounting records. Annual physical inventories should be taken including the extension of the inventory's dollar value.

Finding: These continue to be problems. See comment at page 7.

Short-term Loan Fund

Recommendation: Collection of delinquent loans should be actively pursued by the Financial Aid Office. If collection is not made after a reasonable period of time, the accounts should be turned over to the Montana Department of Revenue for collection. Only after all avenues of collection have been used, should the account be written off.

Finding: Collection of delinquent accounts has been actively pursued by the College's Financial Aid Office and in some instances have been turned over to the Department of Revenue for further follow-up. However, no accounts have been written off. See comment at page 11.

United Student Aid Loan Deposit

Recommendation: The College should record the deposit in its accounting records in order that accountability for this asset can be maintained.

Finding: This continues to be a problem. See comment at page 12.

Athletic Scholarship Report

Recommendation: The College should file and retain copies of the required Frontier Conference reports.

Finding: This continues to be a problem. See comment at page 12.

Financial Status - 1966 Bond Issue

Recommendation: The College should consult with the Commissioner of Higher Education and the Board of Regents to establish alternatives to the methods of meeting the issue's debt service requirements.

Finding: This continues to be a problem. See comment at page 3.

Reserve Requirements - 1966 Bond Issue

Recommendation: We recommend the following: (1) The College should transfer the necessary funds from the operating account and the Systems Repair Reserve to meet the required balances in the Sinking Fund Accounts. (2) Future transfers to the Sinking Fund Account should be made on a timely basis; i.e., on or before each March 15 and September 15. The transfers should be in amounts equal to the interest to become due on the next interest payment date plus one-half of the principal due within the succeeding twelve months and to maintain the required debt service reserve.

Finding: This continues to be a problem. See comment at page 4.

Retirement of Bonds - 1966 and 1967 Issues

Recommendation: Arrangements should be made to have the Trustee assume responsibility for the payment of bond principal and interest without going through the State Treasurer.

Finding: This continues to be a problem. See comment at page 5.

General Ledger - 1966 and 1967 Bond Issues

Recommendation: The College should make the necessary entries at the time the bond principal is paid.

Finding: This continues to be a problem. See comment at page 5.

Receiving Reports

Recommendation: The College should establish a written receiving report. Bills should not be paid unless accompanied by the receiving report.

Finding: This continues to be a problem. See comment at page 13.

Final Comments

We have reviewed the comments and recommendations contained in this report with officials of Western Montana College and the Office of the Commissioner of Higher Education.

We wish to express our appreciation to those officials and their staff for the cooperation and assistance we received from them during our audit.

August 25, 1978

Janke & VanDelinder

FINANCIAL STATEMENTS

WESTERN MONTANA COLLEGE
Balance Sheet
June 30, 1978

ASSETS		LIABILITIES AND FUND BALANCES	
Current Funds -		Current Funds -	
Unrestricted:		Unrestricted:	
Educational and General:		Educational and General:	
Cash on hand, in bank and with State Treasurer	$ 223,220	Accounts payable	$ 147,720
Accounts receivable, net of allowance for doubtful accounts of $2,800	12,212	Deferred revenue	30,214
Prepaid expenses	4,236	Due to State general fund	65,531
Due from other funds	867	Fund deficit	(2,930)
Total	240,535	Total	240,535
Designated:		Designated:	
Cash	10,525	Accounts payable	1,280
Accounts receivable	1,451	Deferred revenue	5,115
Prepaid expenses	1,423	Fund balance	7,004
Total	13,399	Total	13,399
Auxiliary Enterprises:		Auxiliary Enterprises:	
Cash	22,220	Accounts payable	47,095
Investments (Note 3)	232,698	Deferred revenue	3,693
Accounts receivable, net of allowance for doubtful accounts of $5,500	19,393	Fund balance	239,394
Inventory (Note 2)	15,711		
Prepaid expenses	160		
Total	290,182	Total	290,182
Total unrestricted	544,116	Total unrestricted	544,116

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Balance Sheet - continued
June 30, 1978

ASSETS		LIABILITIES AND FUND BALANCES	
Restricted:		Restricted:	
Cash	$ 10,596	Accounts payable	$ 21,879
Accounts receivable	107	Fund balance	(9,393)
Prepaid expenses	1,547		
Due from other funds	236		
Total restricted	12,486	Total restricted	12,486
Total current funds	556,602	Total current funds	556,602
Loan Funds:		Loan Funds:	
Cash on hand and with State Treasurer	$ 14,355	Accounts payable	$ 890
Investments (Note 3)	17,192	Due to other funds	1,103
Loans receivable:		Fund balances (Note 7)	652,357
Short-term loans to students	6,465		
National Direct Student Loans (Note 4)	616,338		
Total loan funds	654,350	Total loan funds	654,350

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Balance Sheet - continued
June 30, 1978

ASSETS		LIABILITIES AND FUND BALANCES	
Plant Funds -		Plant Funds -	
Unexpended:			
State appropriation allocated for future campus improvements (Note 9)			
Renewal and Replacement:		Renewal and Replacement:	
Cash	$ 6	Fund balance	$ 22,551
Investments (Note 3)	22,545		
Total renewal and replacement	22,551	Total renewal and replacement	22,551
Retirement of Indebtedness:		Retirement of Indebtedness:	
Cash with State Treasurer and Trustee	68,379	Accounts payable	533
Investments (Note 3)	259,011	Fund balance	329,347
Accounts receivable, net of allowance for doubtful accounts of $800	2,490		
Total retirement of indebtedness	329,880	Total retirement of indebtedness	329,880
Investment in Plant:		Investment in Plant:	
Land, buildings, equipment and library books (Note 6)	6,266,672	Bonds payable (Note 5)	1,588,000
Construction in progress	61,110	Fund balance	4,739,782
Total investment in plant	6,327,782	Total investment in plant	6,327,782
Total plant funds	6,680,213	Total plant funds	6,680,213

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Balance Sheet - concluded
June 30, 1978

ASSETS

Agency Funds -

Cash	$ 25,416
Accounts receivable	1,853
Investments (Note 3)	9,107
Total agency funds	36,376

LIABILITIES AND FUND BALANCES

Agency Funds -

Accounts payable	$ 1,655
Deposits held in custody for others	34,721
Total agency funds	36,376

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE .
Statement of Changes in Fund Balances
For the Year Ended June 30, 1978

	Current Funds		Loan Funds	Plant Funds			
	Unrestricted	Restricted		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions:							
Educational and general revenues	$2,016,598						
Auxiliary enterprises revenues	458,426						
Designated funds revenues	31,073						
Government grants and support		$287,520					
U.S. Government advances and reimbursements			$ 44,068				
Private gifts and grants		30,630					
Interest on loans receivable			9,351				
Investment income - restricted			542		$ 3,563	$ 14,291	
Student fees - restricted						35,191	
Land grant income - restricted						55,340	
Construction projects accounted for by the Architecture and Engineering Bureau of the Department of Administration				$ 18,684			
Expended for plant facilities (including $169,184 charged to current funds expenditures)							$ 187,868
Retirement of indebtedness							66,000
Total revenues and other additions	2,506,097	318,150	53,961	18,684	3,563	104,822	253,868

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Changes in Fund Balances - continued
For the Year Ended June 30, 1978

	Current Funds		Loan	Plant Funds			
	Unrestricted	Restricted	Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Expenditures and Other Deductions:							
Educational and general expenditures	$2,012,848	$328,755					
Auxiliary enterprises expenditures	440,196						
Designated funds expenditures	24,069						
Indirect costs recovered		8,820	$ 4,905				
Loan cancellations			30,554				
Administrative and collection costs			4,592				
Miscellaneous deductions						$ 2,229	
Expended for plant facilities				$ 18,684			
Retirement of indebtedness						66,000	
Interest on indebtedness						54,396	
Total expenditures and other deductions	2,477,113	337,575	40,051	18,684		122,625	

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Changes in Fund Balances - concluded
For the Year Ended June 30, 1978

	Current Funds		Loan Funds	Plant Funds			
	Unrestricted	Restricted		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers Among Funds - Additions (Deductions):							
Mandatory:							
Loan fund matching grant	$ (3,750)		$ 3,750				
Principal and interest	(3,156)				$(110,271)	$113,427	
Total transfers	(6,906)		3,750		(110,271)	113,427	
Net increase (decrease) for the year	22,078	(19,425)	17,660	-0-	(106,708)	95,624	253,868
Fund balance at beginning of year	221,390	10,032	634,697	-0-	129,259	233,723	4,485,914
Fund balance at end of year	243,468	(9,393)	652,357	-0-	22,551	329,347	4,739,782

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1978

	Unrestricted	Restricted	Total
Revenues -			
Educational and General:			
Tuition and fees	$ 258,396		$ 258,396
State governmental support	1,722,305	$ 25,977	1,748,282
Government grants		274,587	274,587
Gifts and private grants		28,191	28,191
Indirect costs recovered	13,725		13,725
Miscellaneous collections	22,172		22,172
Total educational and general	2,016,598	328,755	2,345,353
Designated Funds	31,073		31,073
Auxiliary Enterprises	458,426		458,426
Total revenues	2,506,097	328,755	2,834,852
Expenditures and Mandatory Transfers -			
Educational and General:			
Instruction	837,877	57,239	895,116
Academic support	195,618	47,478	243,096
Student services	228,021	7,262	235,283
Institutional support	304,004	297	304,301
Operation and maintenance of plant	392,535	26,891	419,426
Student aid	54,793	106,710	161,503
Public service		82,878	82,878
Educational and general	2,012,848	328,755	2,341,603
Mandatory transfers for:			
Loan fund matching grant	3,750		3,750
Total educational and general	2,016,598	328,755	2,345,353
Designated funds - Instruction	24,069		24,069
Auxiliary Enterprises:			
Expenditures	440,196		440,196
Mandatory transfer for principal and interest	3,156		3,156
Total auxiliary enterprises	443,352		443,352
Total expenditures and mandatory transfers	2,484,019	328,755	2,812,774

See Notes to Financial Statements.

WESTERN MONTANA COLLEGE
Statement of Current Funds Revenues, Expenditures, and Other Changes - continued
For the Year Ended June 30, 1978

	Unrestricted	Restricted	Total
Other Deductions:			
Excess of transfers to revenues over restricted receipts		$ (19,425)	$ (19,425)
Net increase (decrease) in fund balance	22,078	(19,425)	2,653

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Accrual Basis

The financial statements of Western Montana College have been prepared on the accrual basis except for investment in plant, depreciation accounting, and allowance for uncollectible loans as explained in Notes 4 and 6 to the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) as transfers of a nonmandatory nature for all other cases.

Fund Accounting

In order to insure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

State general fund appropriations in the current unrestricted education and general fund are reported as revenues only to the extent expended. These appropriations ultimately are expended after all other revenues of this fund have been exhausted.

Inventory at the College's student store is stated at the lower of cost or market using the first-in, first-out method. Purchases of supply items are charged in the appropriate funds directly to current year expenditures. The recognition of these inventories would not have a material effect on the College's overall financial position.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2 - Reclassification of Student Store and Recognition of Inventory

During the year ended June 30, 1978, the College reclassified the student store operations from an agency fund to an auxiliary enterprise and recognized the store's inventory. At July 1, 1977 the store had net assets of $15,747 including an inventory of $14,077. At June 30, 1978, net assets were $16,978 including an inventory of $15,711.

Note 3 - Investments

All investments are recorded at cost. Investments owned by the several funds at June 30, 1978 are as follows:

	Cost	Market or Unit Value
Current Unrestricted Funds:		
Auxiliary enterprises	$ 232,698	$ 230,437
Loan Funds	17,192	17,032
Plant Funds:		
Renewal and replacement	22,545	23,102
Retirement of indebtedness	259,011	261,633
Agency Funds	9,107	9,017
Totals	540,553	541,221

Investment income is generally recorded when received. The above investments consist primarily of United States treasury notes and bills and amounts invested through the Montana State Board of Investments using its Short-Term Investment Pool (STIP).

Note 4 - Loans Receivable - National Direct Student Loan Program

No provision for uncollectible National Direct Student loans have been provided for in the accompanying financial statements. The following statistics were provided to the Department of Health, Education, and Welfare in the annual report of the financial aid programs:

Student loans receivable	$ 616,338
Deduct total value of loans not in repayment status (grace period, armed forces, Peace Corps, Vista, student status, hardship)	286,549
Total student loans receivable in repayment status	329,789
Total amount of scheduled loan payments delinquent	$ 34,239
Percentage of principal payments delinquent	10%

The College follows accounting practices for the National Direct Student Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or for establishment of allowances for uncollectible loans receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the Fund balance and, therefore, would not have a significant effect on the College's over-all financial position.

Note 5 - Bonds Payable

At June 30, 1978, the College had a total of $1,588,000 in outstanding revenue bonds payable. These bonds were issued for construction of various College facilities and are summarized as follows:

- "1966 Indenture" to build a three-story dormitory. There are $1,101,000 of bonds outstanding at June 30, 1978. They are due in varying annual

installments (on October 1) through 2006. The annual debt service for the year ending June 30, 1978 is $84,409. The future maximum annual debt service requirement of $88,415 will be in the year ending June 30, 1985. The bonds bear interest from 2 3/4% to 3 1/2% per annum with semi-annual payment dates (April 1 and October 1). The indenture requires that net annual earnings of the College's housing and dining system and fees pledged under the indenture be sufficient to make deposits to sinking fund trust accounts in order that these accounts may meet current debt requirements and maintain a fixed reserve. Earnings for the current year were deficient by approximately $50,000. The sinking fund accounts had a deficiency of approximately $25,000 at June 30, 1978. The net revenues of the College's housing and dining system, student union fees and student building fees are pledged to this indenture as long as required balances in trust accounts are not maintained.

- "1967 Indenture" to build a physical education building and install necessary equipment. There are $487,000 of bonds outstanding at June 30, 1978. They are due in installments (on July 1) through 1997. The annual debt service for the year ending June 30, 1978 is $35,988. The future maximum annual debt service requirement of $37,354 will be in the year ending June 30, 1979. The bonds bear interest from 3% to 5 1/4% per annum with semi-annual payment dates (January 1 and July 1). Annual earnings from fees and income pledged to this indenture must be sufficient to maintain a required balance in the sinking fund trust account. The earnings requirement was met but the College did not make sufficient transfers to the trust account. At June 30, 1978, the account had a deficiency of approximately $14,000. The necessary amount of Physical Education Building fees, land grant income and usage charges are pledged to the indenture to maintain required balances in the trust account.

The College records interest expense on the above bonds when paid. The recognition of accrued interest would not have a material effect on the College's over-all financial position.

Note 6 - Investment in Plant

Physical plant, equipment, and library books are stated at cost or historically based appraisal values. Depreciation on physical plant and equipment is not recorded. Property disposed of is not deleted from the accounting records. Books purchased for the textbook rental library are not capitalized.

Note 7 - Loan Fund Balances

The loan fund balances at June 30, 1978 are as follows:

Short-term Loan Fund	$ 25,844
National Direct Student Loan Fund:	
Non-capital deficit	(303,451)
Capital:	
Federal contribution	836,965
College contribution	92,999
Total	652,357

Note 8 - Retirement Programs

Retirement benefits are provided for the academic staff through the Montana Teachers' Retirement System (TRS) and non-academic staff through the Montana Public Employees' Retirement System (PERS). Both plans are operated by the State of Montana and membership is compulsory for the respective classes of employees. Contributions for participants and the College are based on a percentage of the participant's salary.

Defined benefits under both plans are based on years of service and final average salary of the participant. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans has not been determined. The College's share of the cost of these plans for the year ended June 30, 1978 was $70,681.

Note 9 - Commitments and Contingent Liabilities

- Accounting for major construction projects of the College is performed by the Architecture and Engineering Bureau of Montana Department of Administration. The College currently has two projects with original spending authority of $153,500. During the current year, the projects' disbursements were $18,684 At June 30, 1978 the projects had a remaining spending authority (i.e., funds appropriated for the projects) from the State of approximately $92,000. Since these funds will become available to the College only when construction costs are incurred, they have not been included in the College balance sheet as assets.

- The value of unused vacation and sick leave accumulated by employees is not recorded as a liability. At June 30, 1978 most permanent employees could accumulate and carry to the following calendar year two times the maximum

number of vacation days earned annually. Unused vacation leave is purchased at full value from employees upon termination. Upon termination, unused sick leave earned since July 1, 1971 is purchased from the employee at 25 percent value.

AGENCY REPLIES

WESTERN MONTANA COLLEGE
OF THE
MONTANA UNIVERSITY SYSTEM
DILLON

October 31, 1978

Janke & Van Delinder
720 North 30th Street
Billings, MT 59101

Dear Darrell,

Attached are our responses to your audit comments in the amended order given to me by Dave.

I hope that our responses reach you in time to meet your press deadline. If you have any questions or find the need for clarification on any of our responses please feel free to call anytime.

Once again thank you for your assistance and I look forward to seeing you in November.

Sincerely,

S. Thomas Briggs
Acting Director of Fiscal Affairs

cc: Ron Near
Commissioner's Office

STB/ds

Financial Status - 1966 Bond Issue

We disagree.

The 1966 bond indenture is not in financial jeopardy. It is therefore unnecessary to consult with the Commissioner of Higher Education and the Board of Regents for alternative debt service requirements.

The fact is evidenced by the following considerations:

(1.) Fiscal 1978 witnessed an increase in food costs, minimum wage costs, utility costs and also the implementation of a preventative maintenance program badly needed by the housing facilities. To offset these increase in costs the Board of Regents authorized a 15% increase in room and board rates. Applying this increase against the applicable revenues results in a net annual earnings in excess of the $84,409 required.

(2.) Dorm utilization is up by about 40% in the fall of 1978 as compared to the fall of 1977 with a commensurate increase in board utilization. The increase in room and board utilization will result in earnings in excess of the requirement.

BOND ISSUES

Reserve Requirements - 1966 Bond Issue

We concur with the recommendations. We do, however, make the following comments:

Transfers have been ordered of the trustee in a timely manner in amounts equal to the interest to become due in the next inerest payment date plus one half of the principal due in the succeeding twelve months and to maintain the required debt service.

During fiscal 1978 the trustee had ample funds in the 1966 indenture to make the appropriate transfers required by the indenture. Since the trustee invests the funds in a block, he stated he wants to hold the funds for two or three months to allow the investments to reach maturity and avoid a "slight loss on the investment". The transfer was anticipated by the trustee in sufficient time to meet the October 1, 1978 payment schedule requirement.

Transfers meeting the full reserve requirement were ordered of the trustee on September 6, 1978.

Retirement of Bonds - 1966 & 1967 Issues

The college is meeting with the Commissioner's Office and the Department of Administration on this matter.

General Ledger - 1966 & 1967 Bond Indenture

We concur.

The general ledgers for the proper accounting entities will recognize the liability for outstanding bonds and account balances and related transactions with the Trustee.

1967 Bond Indenture - Revenue Fund

We concur.

Section 5.04, P. 31 of the 1967 Bond Indenture authorizes the creation of the Revenue Fund, "separate and apart from all other funds". To the extent that this fund is not in compliance with the indenture, approval will be obtained to maintain this fund status from the Department of Administration.

Student Accounts Receivable

We disagree.

The Board of Regents do not have the authority to appropriate the necessary funds to administer a loan fund for the deferral of fees and other student charges.

We suggest that the accounts receivable be cleared into the respective accounts at year-end.

The differences between the detail and the general ledger control accounts is being resolved.

Delinquent Accounts

We concur.

The college established a policy that meets these recommendations during fiscal 1978. The procedures recommended were begun near the end of fiscal 1978.

Plant, Property & Equipment

We concur.

Although state agencies are still waiting for an inventory policy to be established by the Department of Administration, WMC has begun preparing our own inventory system. About 280 man-hours have been spent on developing the system and all physical inventory is completed.

Yet to be completed is about 200 hours of cataloguing, tagging and pricing. This will be completed at the end of fiscal 1979. Accounting records will then be adjusted to reflect the inventory.

Plant, Property & Equipment (contd)

Procedures will be adopted in fiscal 1979 to account for all final reports from A & E in construction projects.

The textbook library is being merged into the campus bookstore and proper inventory procedures will be adopted in this entity.

Non-Resident Building Fees

(See response from Commissioner of Higher Education.)

Student Activity Fee

We concur.

Correct allocations have been implemented for fiscal 1979 and will be corrected in a prior year adjustment for fiscal 1978.

Contingent Revolving Account

We concur.

A monthly reconciliation system has been established. The $202.71 will be reconciled this fiscal year.

Scholarships and Fee Waivers

We agree that the detail records and the general ledger control account should be reconciled monthly. This will be implemented in fiscal 1979.

We don't agree, however, that the Jim Spehar Memorial should be classified as a restricted fund. The school has agreed to hold $2323 of the $3000 fund in trust, to be returned to Mrs. Spehar if the scholarship is discontinued. This amount clearly belongs in an agency account. For ease of accounting we have elected to also include the $677 belonging to the college in the same account.

Inter-Entity Loan

We concur.

The college will request authority of the Board of Regents to replace the loan category with that of an inter-entity transfer.

Student Store

We concur.

The student store has recently been consolidated with the Textbook Library. Separate inventories will be taken, consolidated into the Student Bookstore and reflected in the store's accounting records.

Internal Control - Cash

We concur.

All three recommendations are being implemented.

Payroll

We concur.

One employee performs the payroll functions. This arrangement is the most expedient.

The college will, however, divide the duties as recommended to enhance internal security.

Short-Term Loan Fund

We concur.

Such a procedure was implemented in fiscal 1978.

United Student Aid Loan Deposit

We concur.

The recommendations will be implemented in fiscal 1979.

Athletic Scholarship Report

We concur.

The business office will look into the need to prepare such a report.

MISCELLANEOUS

Receiving Reports

The college has used a receiving report for some time. It will be expanded to show dates of invoices received and paid.

All supporting documents are now being cancelled by the person concelling the claim.

Deposits

We concur.

The college will reconcile the SDLS to the general ledgers.

Travel-Athletic Department

We concur.

Receipts were required for all athletic related travel in fiscal 1978. The policy will be rigidly enforced.

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA
59601

COMMISSIONER OF HIGHER EDUCATION

October 26, 1978

Janke and Van Delinder
Certified Public Accountants
720 North 30th Street
Billings, Montana 59101

Gentlemen:

From the standpoint of the Commissioner's Office, and the perspective of system-wide administration, I concur with the recommendations contained in your audit report of Western Montana College for the period ended June 30, 1978.

Concerning those recommendations in which the assistance of the Commissioner of Higher Education or the Board of Regents are concerned, you may be assured that we will work closely with the staff at Western Montana College to develop workable solutions to the problems noted.

Sincerely,

Lawrence K. Pettit
Commissioner of Higher Education

LKP/ale

xc: George Bandy
Acting President Dale R. Tash

THE MONTANA UNIVERSITY SYSTEM CONSISTS OF THE UNIVERSITY OF MONTANA AT MISSOULA, MONTANA STATE UNIVERSITY AT BOZEMAN, MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY AT BUTTE, WESTERN MONTANA COLLEGE AT DILLON, EASTERN MONTANA COLLEGE AT BILLINGS AND NORTHERN MONTANA COLLEGE AT HAVRE.

WESTERN MONTANA COLLEGE

REVENUE BONDS

Financial Statements of Revenue Bonds
(With Auditors' Report Thereon)

Board of Regents of Higher Education
(Formerly State Board of Education)
Western Montana College
Dillon
Montana

June 30, 1978

1966 Indenture
Housing and Dining System Bonds of 1966

1967 Indenture
Student Building Fee and Land Grant Income

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JANKE AND VAN DELINDER CERTIFIED PUBLIC ACCOUNTANTS

JAMES N. JANKE, CPA
DALLAS W. VAN DELINDER, CPA
DARRELL E. EHRLICK, CPA

Western Montana College
Dillon,
Montana

We have examined the schedule of revenues and expenditures, schedule of account activity and schedule of investments of Western Montana College Revenue Bonds; Housing and Dining System Bonds of 1966 and Student Building Fee and Land Grant Income for the fiscal year ended June 30, 1978, and for all other years presented. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned schedules present fairly the account balances on hand at June 30, 1978, and the results of the transactions for the fiscal years then ended.

In connection with our examination, nothing came to our attention that caused us to believe that the Board of Regents of Higher Education, Western Montana College and the Trustee were not complying with the provisions of the indentures and resolutions authorizing these bonds, except as noted in "Auditors' Comments."

August 25, 1978

Janke & Van Delinder

720 NORTH 30TH STREET □ BILLINGS, MONTANA 59101 □ AC 406-245-5136

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Western Montana College
Dillon, Montana
Revenue Bonds Outstanding
June 30, 1978

Serial Revenue Bonds		Interest Rate	Final Maturity	Original Amount of Bonds	Retired		Bonds Outstanding 6/30/78
Housing and Dining System Bonds of 1966	6/1/66	2 3/4%	10-1-85	$ 486,000	$ 283,000	(1)	$ 203,000
		3	10-1-96	282,000	96,000	(2)	186,000
		3 1/2	10-1-01	328,000	97,000	(3)	231,000
		3	10-1-06	580,000	99,000	(4)	481,000
				1,676,000	575,000		1,101,000
Student Building Fee and Land Grant Income		5-5 1/4%	7-1-97	270,000	51,000		219,000
		3	7-1-97	366,000	98,000		268,000
				636,000	149,000		487,000
Totals				2,312,000	724,000		1,588,000

Notes:

Retirements:

(1)	Regular	$220,000	Early	$63,000
(2)	Regular	60,000	Early	36,000
(3)	Regular	55,000	Early	42,000
(4)	Regular	90,000	Early	9,000

Western Montana College
Dillon, Montana
Advance Redemption Rights - All Revenue Bond Series
June 30, 1978

Housing and Dining System Bonds of 1966 - Section 6.01 of Indenture

Series "A" Bonds

Bonds maturing 10/1/67 are not subject to redemption or prepayment.

Bonds maturing 10/1/68-10/1/87 (inclusive) callable after 10/1/67 at par, accrued interest plus premiums:

3	%	if	redeemed	or	prepaid	4/1/68-10/1/72
2 1/2%	"	"	"	"	"	4/1/73-10/1/77
2	%	"	"	"	"	4/1/78-10/1/82
0	%	"	"	"	"	after 10/1/82

Series "B" Bonds

Bonds maturing 10/1/67 and 10/1/68 are not subject to redemption or prepayment.

Bonds maturing 10/1/69-10/1/98 (inclusive) callable after 10/1/68 at par, accrued interest plus premiums:

3	%	if	redeemed	or	prepaid	4/1/69-10/1/73
2 1/2%	"	"	"	"	"	4/1/74-10/1/78
2	%	"	"	"	"	4/1/79-10/1/83
1 1/2%	"	"	"	"	"	4/1/84-10/1/88
1	%	"	"	"	"	4/1/89-10/1/93
0	%	"	"	"	"	after 10/1/93

Series "C" Bonds

Bonds maturing 10/1/67-10/1/73 (inclusive) are not subject to redemption or prepayment.

Bonds maturing 10/1/74-10/1/03 (inclusive) callable after 10/1/73 at par, accrued interest plus premiums:

3	%	if	redeemed	or	prepaid	4/1/74-10/1/78
2 1/2%	"	"	"	"	"	4/1/79-10/1/83
2	%	"	"	"	"	4/1/84-10/1/88
1 1/2%	"	"	"	"	"	4/1/89-10/1/93
1	%	"	"	"	"	4/1/94-10/1/98
0	%	"	"	"	"	after 10/1/98

Series "D" Bonds

Bonds maturing 10/1/69-10/1/76 (inclusive) are not subject to redemption or prepayment.

Bonds maturing 10/1/77-10/1/06 (inclusive) callable after 10/1/76 at par, accrued interest plus premiums:

3	%	if	redeemed	or	prepaid	4/1/77-10/1/81
2 1/2%	"	"	"	"	"	4/1/82-10/1/86
2	%	"	"	"	"	4/1/87-10/1/91
1 1/2%	"	"	"	"	"	4/1/92-10/1/96
1	%	"	"	"	"	4/1/97-10/1/01
0	%	"	"	"	"	after 10/1/01

Student Building Fee and Land Grant Income

Series "A" Bonds

Bonds maturing 7/1/68-7/1/82 (inclusive) are not subject to redemption or prepayment.

Bonds maturing 7/1/83-7/1/97 (inclusive) callable on or after 7/1/82 at par, accrued interest plus premiums:

4%	if prepaid		7/1/82-1/1/85
2%	"	"	7/1/85-1/1/88
1%	"	"	7/1/88-1/1/91
0%	"	"	on or after 7/1/91

Series "B" Bonds

Bonds maturing 7/1/68-7/1/82 (inclusive) are not subject to redemption or prepayment.

Bonds maturing 7/1/83-7/1/97 (inclusive) callable on or after 7/1/82 at par, accrued interest plus premiums:

4%	if prepaid		7/1/82-1/1/85
2%	"	"	7/1/85-1/1/88
1%	"	"	7/1/88-1/1/91
0%	"	"	on or after 7/1/91

U.S. Government waives non-callable provisions, redemption dates, premium and publication of notice of call applicable thereto, provided that the Government is not advertising the bonds for resale.

Western Montana College
Dillon, Montana
Schedule of Investments - Revenue Bond Funds
June 30, 1978

Description	Rate		Maturity Date	Maturity Value	Carrying Value 6/30/78	Market Value 6/30/78
Housing and Dining System Bonds of 1966						
Operating Account						
Investments in Montana State Short-Term Investment Pool				$179,085	$179,085	$177,336
Totals				179,085	179,085	177,336
Sinking Funds (Series A-D) and System Repairs Reserve Account						
U.S. Treasury Bills	7.22%	(1)	10-5-78	25,000	24,155	24,556
" " " "	6.91%	(1)	7/27/78	40,000	38,668	39,787
" " " "	7.10%	(1)	8/10/78	40,000	38,662	39,782
Federated Investors Mutual Fund				1,365	1,365	1,365
Totals				106,365	102,850	105,490
Student Building Fee and Land Grant Income						
Revenue Fund Account						
Investments in Montana State Short- erm Investment Pool				11,083	11,083	11,021
U.S. Treasury Bills	7.22	(1)	10/5/78	40,000	38,647	39,289
" " " "	7.11	(1)	11/2/78	40,000	38,638	39,033
" " " "	7.60	(1)	12/21/78	20,000	19,285	19,286
Federated Investors Mutual Fund				4,990	4,990	4,990
Totals				116,073	112,643	113,619

Western Montana College
Dillon, Montana
Schedule of Investments - Revenue Bond Funds - continued
June 30, 1978

Description	Rate	Maturity Date	Maturity Value	Carrying Value 6/30/78	Market Value 6/30/78
Revenue Bond Fund Account					
U.S. Treasury Bills	7.10% (1)	7/20/78	$ 20,000	$ 19,342	$ 19,895
" " " "	7.22% (1)	10/5/78	30,000	28,985	29,467
" " " "	7.60% (1)	12/21/78	10,000	9,643	9,643
Federated Investors Mutual Fund			4,067	4,067	4,067
Totals			64,067	62,037	63,072
Grand Totals			465,590	456,615	459,517

Note:

(1) Purchased at a discount. Rate is the effective yield.

Western Montana College
Dillon, Montana
Auditors' Comments - All Revenue Bond Series
June 30, 1978

Enrollment Statistics

Enrollment statistics are summarized as follows:

	Fiscal Year Ended 6/30/78				Fiscal Year Ended 6/30/77			
	Summer 1977	Fall 1977	Winter 1978	Spring 1978	Summer 1976	Fall 1976	Winter 1977	Spring 1977
Total Enrollment:								
Male - Freshmen	7	103	103	93	6	135	116	78
- Sophomore	7	39	53	44	7	54	53	49
- Junior	16	41	42	46	10	54	48	49
- Senior	22	78	59	61	26	55	62	69
- Unclassfied	10	33	13	18	-	20	-	-
- Graduate Students	109	98	69	59	114	109	52	61
Total Male	171	392	339	321	163	427	331	306
Female - Freshmen	13	136	111	93	7	96	91	63
- Sophomore	15	49	45	39	13	74	53	46
- Junior	14	48	51	43	20	51	35	39
- Senior	20	47	41	44	28	52	43	49
- Unclassfied	23	101	7	45	-	39	-	-
- Graduate Students	70	64	90	34	72	84	29	32
Total Female	155	445	345	298	140	396	251	229
Total	326	837	684	619	303	823	582	535
Full-time	107	473	482	465	145	483	454	416
Part-time	219	364	202	154	158	340	128	119
Total	326	837	684	619	303	823	582	535

Enrollment information furnished by the Registrar, Western Montana College, and was not verified by audit.

Payment of Bond Principal and Interest

All bonds and interest coupons have been paid on time as they have become due and payable. In prior years, as authorized in the Resolutions and Indentures, excess net revenues and remaining balances in construction accounts have provided funds to retire some bonds prior to their stated maturity date.

Insurance Coverages

Except as noted in this section, insurance coverages appear adequate at June 30, 1978. Coverages for physical loss or damage under the State of Montana "all property" insurance policy are as follows:

	Buildings	Contents
1966 Revenue Bonds		
Women's Residence Hall	$1,715,900	$ 65,600
Holloran House and Storage Building (Married Student Housing)	24,400	600
Student Union Building	403,800	32,200
Jordan Hall	261,300	14,400
Western Apartments	341,800	12,200
Davis Hall	514,300	12,200
Centennial Hall	605,200	30,000
Clark Hall	826,300	30,000
Totals	4,693,000	197,200
1967 Revenue Bonds		
Physical Education Building	$1,554,900	$ 66,700

The College is also covered under the State of Montana's Employee Fidelity Bond, boiler insurance, and automobile policies. Under policies written through local agents loss of rental income is as follows:

Clark Hall	$ 31,500
Centennial Hall	22,000
Western Apartments	18,000
Jordan Hall	4,000
Davis Hall	10,600
Women's Residence Hall	46,000
Student Union Building	2,500

Section 6.09 of the 1967 Bond Indenture requires the College to maintain use

and occupancy insurance on the Physical Education Building. This has not been done.

Other local policies provide coverage for burglary and robbery and general liability. All insurance coverages are reviewed annually.

Western Montana College
1966 Indenture
Housing and Dining System Bonds of 1966
Data on Bonds
June 30, 1978

Project - Three-story dormitory with basement for approximately 150 single men students, together with necessary appurtenant facilities.

Original Issue -

Series	Interest Rate	Amount
A	2 3/4%	$ 486,000
B	3	282,000
C	3 1/2	328,000
D	3	580,000
		1,676,000

Type of Bonds - Registered serial bonds maturing in annual installments from October 1, 1967 through October 1, 2006.

Bonds Outstanding
June 30, 1978 - $1,101,000

	Annual Payments Year	Annual Payments Amount	Original Issue	Outstanding June 30, 1978
Series A	1967	15M	$ 15,000	$ -0-
	1968-76	20M	180,000	-0-
	1977-83	25M	175,000	150,000
	1984-86	30M	90,000	53,000
	1987	26M	26,000	-0-
			486,000	203,000
Series B	1967-76	5M	$ 50,000	$ -0-
	1977-95	10M	190,000	180,000
	1996-97	15M	30,000	6,000
	1998	12M	12,000	-0-
			282,000	186,000
Series C	1967-80	5M	$ 70,000	$ 15,000
	1981-97	10M	170,000	170,000
	1998-2002	15M	75,000	46,000
	2003	13M	13,000	-0-
			328,000	231,000

Western Montana College
1966 Indenture
Housing and Dining System Bonds of 1966
Data on Bonds - continued
June 30, 1978

	Annual Payments		Original	Outstanding
	Year	Amount	Issue	June 30, 1978
Series D	1969-83	10M	$150,000	$ 60,000
	1984-93	15M	150,000	150,000
	1994-2002	20M	180,000	180,000
	2003-06	25M	100,000	91,000
			580,000	481,000

Annual Principal & Interest Needs	-	This Year	$84,409	(Year Ending 6/30/78)
		Future Maximum	89,378	(Year Ending 12/31/84)
		Future Minimum	16,240	(Year Ending 6/30/07)
Annual Earnings Requirement	-	This Year	$84,409	

Western Montana College
1966 Indenture
Housing and Dining System Bonds of 1966
Comparative Schedules of Revenues and Expenditures
For the Years Ended June 30, 1978 and June 30, 1977

	1978	1977
Gross Revenues:		
Food Income	$214,867	$167,452
Room Income	114,738	99,156
Married Student Housing	17,161	17,679
Student Union Building Rent and Other	3,228	3,611
Investment Income	6,401	-0-
Total Gross Revenues	356,395	287,898
Expenses:		
Salaries, Wages & Benefits	86,332	67,446
Food Department Expense	160,183	132,626
Communications	12,807	12,778
Supplies & Materials	16,594	4,408
Repairs & Maintenance	5,741	5,665
Utilities	52,469	13,000
Other Contracted Services	3,805	-0-
Other	29	497
Trustee Fees	1,000	2,000
Total Expenses	338,960	238,420
Income from Operations	17,435	49,478
Student Fees	17,439	18,563
Net Annual Earnings	34,874*	68,041*

- - - - - - - - - - - - - - -

* Annual Earnings:		
Actual	$ 34,874	$ 68,041
Required	84,409	80,726
Actual (Under)	(49,535)	(12,685)

Western Montana College
1966 Indenture
Housing and Dining System Bonds of 1966
Schedule of Account Activity
For the Year Ended June 30, 1978

	Operating Account	Sinking Fund Accounts				System Repairs Reserve
		Series A	Series B	Series C	Series D	
Balances 6/30/77	$180,519	$ (1,080)	$ (2,940)	$ (4,130)	$(39,701)	$129,259
Additions:						
Net Earnings	34,874	-0-	-0-	-0-	-0-	-0-
Inter-account Transfers	-0-	60,881	31,128	31,459	89,077	6,203
Transfers from Other Sources	-0-	-0-	-0-	-0-	-0-	77,635
Investment Income	-0-	-0-	-0-	-0-	-0-	3,563
Total Additions	34,874	60,881	31,128	31,459	89,097	87,401
Beginning Balances & Additions	215,393	59,801	28,188	27,329	49,396	216,660
Deductions:						
Capital Expenditures	11,071	-0-	-0-	-0-	-0-	-0-
Principal Payments	-0-	25,000	10,000	5,000	10,000	-0-
Interest Payments	-0-	5,926	5,730	8,173	14,580	-0-
Inter-account Transfers	24,659	-0-	-0-	-0-	-0-	194,109
Total Deductions	35,730	30,926	15,730	13,173	24,580	194,109
Balances 6/30/78	179,663*	28,875*	12,458*	14,156*	24,816*	22,551*

Western Montana College
1966 Indenture
Housing and Dining System Bonds of 1966
Schedule of Account Activity - continued
For the Year Ended June 30, 1978

	Operating Account	Sinking Fund Accounts				Systems Repair Reserve
		Series A	Series B	Series C	Series D	
Balances 6/30/78 Accounted For:						
With:						
Western Montana College	$(21,310)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
State Treasurer	21,888	-0-	-0-	-0-	-0-	-0-
Trustee	-0-	28,875	12,458	14,156	24,816	22,551
Montana State Board of Investments	179,085	-0-	-0-	-0-	-0-	-0-
Totals	179,663	28,875	12,458	14,156	24,816	22,551
By:						
Cash	28,705	-0-	-0-	-0-	-0-	6
Accounts Receivable - Net of Allowance for Bad Debts of $6,300	16,392	-0-	-0-	-0-	-0-	-0-
Accounts Payable	(44,519)	-0-	-0-	-0-	-0-	-0-
Investments	179,085	28,875	12,458	14,156	24,816	22,545
Totals	179,663	28,875	12,458	14,156	24,816	22,551
- - - - - - - - - - - - - - - -						
* 6/30/78 Account Balances:						
Actual	$179,663	$ 28,875	$ 12,458	$ 14,156	$ 24,816	$ 22,551
Required	-0-	41,375	17,458	16,656	29,824	-0-
Actual Over (Under)	179,663	(12,500)	(5,000)	(2,500)	(5,008)	22,551

Western Montana College
1966 Indenture
Housing and Dining System Bonds of 1966
Auditors' Comments
June 30, 1978

Section 5.05 and 5.06 of Indenture--Annual Earnings Requirements

For the year ended 6/30/78 income from Operations and Student Fees was $34,874. The Indenture requires the Net Annual Earnings be sufficient to make the semi-annual deposits to the Sinking Fund Accounts as required under the provisions of Section 5.05. The minimum deposit required this year was $84,409. Deposits of $18,456 were made from the Revenue Fund Account to the Sinking Fund Accounts and deposits of $194,109 were made from the System Repairs Reserve Account to the Sinking Fund Accounts. A substantial portion of these deposits were to eliminate deficits which existed at June 30, 1977. The Net Annual Earnings were $49,535 less than the actual principal and interest paid during the year.

Section 5.05 and 5.06 of Indenture--Accounts

Operating Account $179,663. No definite balance required.

Sinking Fund Accounts:

Series A $28,875. Required to have $41,375 which is one-half of the amount of bond principal becoming due and payable at October 1, 1978 plus a reserve of $28,875. This requirement was not met.

Series B $12,458. Required to have $17,458 which is one-half of the amount of bond principal becoming due and payable at October 1, 1978 plus a reserve of $12,458. This requirement was not met.

Series C $14,156. Required to have $16,656 which is one-half of bond principal becoming due and payable at October 1, 1978 plus a reserve of $14,156. This requirement was not met.

Series D $24,816. Required to have $29,824 which is one-half of the amount of bond principal becoming due and payable at October 1, 1978 plus a reserve equal to the average annual debt service, which was $24,824 at 6/30/78. This requirement was not met.

System Repairs Reserve Account $22,551. There shall be deposited annually $4,525, or such portion thereof as is available, until the account balance shall aggregate $90,474. Once the required balance is accumulated in the Sinking Fund Account, Series D, additional annual deposits of one-fourth of 1%, or such portion thereof as is available, shall be made until the additional reserve equals 5% of the original principal amount of Series D Bonds ($29,000). Deposits totaling $6,203 from the Operating Account were made to this account during the year ended 6/30/78. A definite balance is not required.

Occupancy

	1977-78			
	Fall Quarter	Winter Quarter	Spring Quarter	Average
Women's Residence Hall	44%	38%	36%	39%
Clark Hall	46%	56%	47%	50%
Centennial Hall	38%	38%	48%	41%
Western Apartments and Other Married Student Housing	100%	100%	100%	100%

Jordan Hall and Davis Hall which will accommodate 48 and 90 students, respectively, were not used during the year ended June 30, 1978.

Information on occupancy was submitted by the Business Office, Western Montana College, and was not verified by audit.

Board and Room Rates

	10 Meal Plan & Room	15 Meal Plan & Room	20 Meal Plan & Room
Fall Quarter	$ 435	$ 444	$ 453
Winter Quarter	380	388	401
Spring Quarter	380	388	401

An extra charge of $20 is assessed for single rooms.

Married students' accommodations in Western Apartments are $85 per month for a one-bedroom apartment and $95 for a two-bedroom apartment.

Transfers to Sinking Fund Accounts

Section 5.05 of the Indenture requires deposits to be made to the Sinking Fund Accounts, on or before each March 15 and September 15, in amounts equal to the interest to become due on the next interest payment date plus one-half of the principal due within the succeeding twelve months and to maintain the required debt service reserve. The required deposits were not made.

Section 5.05 states that deposits to the Sinking Fund Accounts shall be made from the Operating Account, which had a balance at June 30, 1978, of $179,663.

Section 5.06 states that funds on deposit in the System Repairs Reserve, which had a balance at June 30, 1978 of $22,551, shall be transferred to the Sinking Fund Accounts to the extent required to eliminate deficiencies in those accounts. We recommend that sufficient funds be transferred to meet the required Sinking Fund balances.

Section 4.09 of Indenture--Revenues

This section requires the establishment and maintenance of parietal rules, rental rates, fees, and charges for the use of the facilities constituting the Housing and Dining System as may be necessary (1) to ensure maximum occupancy and use of said facilities and (2) to provide together with other revenues, fees and income pledged under the indenture, sufficient revenues for the maintenance and operation of the facilities and to enable the College to comply with its obligations with respect to the Sinking Fund Accounts and the System Repairs Reserve. The College was short $49,535 of its basic earnings requirement. Accordingly, the requirements of Section 4.09 were not met.

Section 4.12 of Indenture--Non-Resident Building Fee

This section requires all students who are not residents of Montana to pay a non-resident building fee of $22.50 for each of the fall, winter, and spring quarters. The College requires non-resident students to pay the building fee at the rate of $2.00 per credit up to twelve credits or $24.00. Non-resident students taking less than twelve credits did not pay the fee required by the Indenture.

Section 5.08 of Indenture--Investments

This section permits the investment of excess funds in the Sinking Fund Accounts and the System Repairs Reserve Account. Investments must be direct obligations of, or obligations, the principal of and interest on which are guaranteed by the United States Government. Any interest, discount, or premium obtained from such investment shall be credited or charged to the Account in which such investment is held. At June 30, 1978, investments of the System Repairs Reserve Account included investments in mutual funds totaling $1,365. These investments are not guaranteed by the United States Government and accordingly the College is not in compliance with Section 5.08 of the Indenture.

Section 5.03 of Indenture--Separate Bank Account

A separate bank account for the Revenue Fund Account is to be maintained unless the Government is awarded all of the Bonds and four conditions are met. Three of the four conditions are met; the fourth condition in part is as follows:

> "The College must be in compliance with all covenants and requirements of the Indenture covering the Bonds."

In our opinion, based upon our comments as set forth above, the College is not in compliance with all of the "covenants and requirements" of the Indenture and should be maintaining a separate bank account for the Revenue Fund Account.

Western Montana College
1967 Indenture
Student Building Fee and Land Grant Income
Data on Bonds
June 30, 1978

Project - Physical Education Classroom Building and necessary equipment.

Original Issue -

Series	Interest Rate	Amount
A	5 & 5 1/4%	$270,000
B	3%	366,000
		636,000

Type of Bonds - Serial and registered serial bonds maturing in annual installments from July 1, 1968 through July 1, 1997.

Bonds Outstanding June 30, 1978 - $487,000

	Annual Payments Year	Amount	Original Issue	Outstanding June 30, 1978
Series A	1968-70	4M	$ 12,000	$ -0-
	1971-73	5M	15,000	-0-
	1974-77	6M	24,000	-0-
	1978-80	7M	21,000	21,000
	1981-82	8M	16,000	16,000
	1983-85	9M	27,000	27,000
	1986-87	10M	20,000	20,000
	1988-89	11M	22,000	22,000
	1990	12M	12,000	12,000
	1991-92	13M	26,000	26,000
	1993-94	14M	28,000	28,000
	1995	15M	15,000	15,000
	1996-97	16M	32,000	32,000
			270,000	219,000
Series B	1968-71	8M	32,000	-0-
	1972-75	9M	36,000	-0-
	1976-78	10M	30,000	-0-
	1979-81	11M	33,000	33,000
	1982-84	12M	36,000	36,000
	1985-87	13M	39,000	39,000
	1988-89	14M	28,000	28,000
	1990-91	15M	30,000	30,000
	1992-93	16M	32,000	32,000
	1994-95	17M	34,000	34,000
	1996-97	18M	36,000	36,000
			366,000	268,000

Western Montana College
1967 Indenture
Student Building Fee and Land Grant Income
Data on Bonds - continued
June 30, 1978

Annual Principal & Interest Needs	-	This Year	$35,988	(Year Ending 6/30/78)
		Future Maximum	37,354	(Year Ending 6/30/79)
		Future Minimum	16,420	(Year Ending 6/30/98)
Annual Earnings Requirement	-	This Year	$43,913	

Western Montana College
1967 Indenture
Student Building Fee and Land Grant Income
Comparative Schedules of Revenues and Expenditures
For the Years Ended June 30, 1978 and June 30, 1977

	1978	1977
Revenues - P.E. Building Operations	$ 2,463	$ 200
Operating Expenses:		
Trustee Fees	501	1,018
Audit Fee	576	-0-
Repairs and Maintenance	288	645
Total Operating Expenses	1,365	1,663
Income (Loss) from Operations	1,098	(1,463)
Student Fees	15,289	14,884
Investment Income	6,624	-0-
Land Grant Income	55,340	46,844
Net Annual Earnings	78,351*	60,265*

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* Annual Earnings:		
Actual	$ 78,351	$ 60,265
Required	43,913	-0-
Actual Over	34,438	60,265

Western Montana College
1967 Indenture
Student Building Fee and Land Grant Income
Schedule of Account Activity
For the Year Ended June 30, 1978

	Revenue Fund	Revenue Bond Fund
Balances 6/30/77	$ 22,019	$234,776
Additions:		
Net Earnings	78,351	-0-
Inter-account Transfers	174,741	30,048
Income from Investments	-0-	7,421
Total Additions	253,092	37,469
Beginning Balances & Additions	275,111	272,245
Deductions:		
Capital Expenditures	820	-0-
Principal Payments	-0-	16,000
Interest Payments	-0-	19,988
Transfers to Other WMC Funds	77,635	-0-
Inter-account Transfers	30,048	174,741
Total Deductions	108,503	210,729
Balances 6/30/78	166,608*	61,516*
Balances 6/30/78 Accounted For:		
With:		
Western Montana College	1,357	-0-
State Treasurer or In-transit	51,491	12,749
Trustee	102,677	48,767
Montana State Board of Investments	11,083	-0-
Totals	166,608	61,516
By:		
Cash	52,608	(521)
Accounts Receivable	1,890	-0-
Accounts Payable	(533)	-0-
Investments	112,643	62,037
Totals	166,608	61,516
* 6/30/78 Account Balances:		
Actual	$166,608	$ 61,516
Required	-0-	75,381
Total Over (Under)	166,608	(13,865)

Western Montana College
1967 Indenture
Student Building Fee and Land Grant Income
Auditors' Comments
June 30, 1978

Section 5.03 of Indenture--Annual Earnings Requirement

The earnings requirement for the year ended June 30, 1978 was $43,913. This requirement was met.

The annual earnings requirement is an amount necessary to maintain a balance in the Revenue Bond Fund as set forth in the following comment.

Section 5.03 of Indenture--Account Balances

Revenue Fund $166,608. No definite balance required.

Revenue Bond Fund $61,516. The balance required at June 30, 1978 is $75,381 which is (1) the current bond service, plus (2) all compensation and expenses which are due and payable to the trustee within thirty days, plus (3) an additional reserve of $38,378. This requirement was not met.

Section 5.04 of Indenture--Bank Account

This section requires the Revenue Fund to be maintained in a separate account in a bank which is a member of the FDIC. The Revenue Fund Account is maintained by the Montana State Treasurer. We recommend that a separate bank account be maintained pursuant to Section 5.04.

Section 6.09 of Indenture--Use and Occupancy Insurance

See our comments under the Insurance Coverages Section under - Schedules Regarding All Revenue Bond Series.

Sections 5.03 and 5.04 of Indenture--Investments

This section permits the investment of excess funds in the Revenue Fund and and Revenue Bond Fund Account to be invested in securities which are general obligations of the United States or securities whose principal and interest payments are guaranteed by the United States.

At June 30, 1978 the Revenue Fund had an investment in the Montana State Short-Term Investment Pool totaling $11,083. This investment is not guaranteed by the United States Government and accordingly the College is not in compliance with Section 5.04 of the Indenture. At June 30, 1978, the Revenue Fund and Revenue Bond Fund had investments in mutual funds of $4,990 and $4,067, respectively. These investments are not guaranteed by the United States Government and accordingly the College is not in compliance with Sections 5.03 and 5.04 of the Indenture.

Section 5.02 of Indenture--Charges for Current Expenses

During the year ended June 30, 1978, the Physical Education Classroom Building was used only for College functions; therefore, no significant income was received for usage. All operating expenditures, except those included in the Income Statement were paid from sources other than the funds included in the Indenture.

Inter-Account Transfers and Transfers to Other WMC Funds

During the year ended June 30, 1978, the College transferred excess funds of $174,741 from the Revenue Bond Fund to a new trust account titled "Revenue Fund Account." Subsequently, a transfer of $77,635 was made from this account to the System Repairs Reserve trust account of the 1966 Bond Indenture. The trust account's balance of $102,677 at June 30, 1978 was included in the Revenue Fund's balance.